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FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA

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FOLLOWING SENT ACTION SECSTATE, MAY 20, FROM MANILA RPTD TO
YOU:

QUOTE LIMITED OFFICIAL USE MANILA 5866

USADB

TREASURY FOR FINKEY

E.O. 11652: DECLAS 12/31/74

TAGS: EAID, EFIN

SUBJECT: POSSIBLE CONSEQUENCES TO U.S.POSITION IN ADB
FROM SPECIAL ORDINARY CAPITAL INCREASE OF OTHER MEMBERS

SUMMARY: GERMANY AND INDONESIA INTEND TO REQUEST
INCREASE IN ORDINARY CAPITAL SUBSCRIPTION. MALAYSIAN
GIVING MATTER SERIOUS CONSIDERATION AS WELL. MAGNITUDE
OF PROPOSED GERMAN AND INDONESIAN SPECIAL CAPITAL IN-
CREASES SUCH THAT RESULTS FROM INCREASES COULD (A)
SERIOUSLY AFFECT U.S. ABILITY RETAIN INDEPENDENT
DIRECTOR'S CHAIR IN ADB BOARD AND (B) PRECLUDE POSSI-
BILITY U.S. REESTABLISHING PARITY WITH JAPAN, UNLESS
OVERDUE U.S.ORDINARY CAPITAL INCREASE EFFECTED PROMPTLY.

1. GERMANY, INDONESIA, AND MALAYSIA RECENTLY CONSULTED
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WITH ADB PRESIDENT REGARDING POSSIBLE SPECIAL ORDINARY

CAPITAL INCREASES. GERMANY AND INDONESIAN DEFINITELY DECIDED TO REQUEST SPECIAL INCREASE. MALAYSIA UNDECIDED AT THIS POINT. TIMING UNCLEAR BUT MAY WELL OCCUR THIS YEAR. EXACT AMOUNTS ALSO UNCERTAIN BUT UNDERSTAND GERMANY THINKING IN TERMS OF ROUGHLY DOUBLING SUBSCRIPTION, INDONESIA OF TREBLING.

2. RELEVANT RULES GOVERNING SHAR PARTICIPATION BY MEMBERS AND DISTRIBUTION OF DIRECTORSHIPS ARE AS FOLLOWS:

(A) ARTICLE 5 OF BANK CHARTER REQUIRE REGIONAL MEMBERS MUST OWN MINIMUM 60 PERCENT OF BANK'S TOTAL OUTSTANDING SHARES. BANK'S REGIONAL MEMBERS CURRENTLY OWN 72 PERCENT OF BANK'S SHARES. ARTICLE 5 ALSO STIPULATES THAT SPECIAL ATTENTION MUST BE GIVEN TO REQUEST OF ANY MEMBER OF BANK HAVING LESS THAN 6 PERCENT OF SUBSCRIBED STOCK TO INCREASE ITS PROPORTIONATE SHARE. GERMANY, INDONESIA AND MALAYSIA ALL INCLUDED THIS CATEGORY.

(B) ARTICLE 33 OF BANK CHARTER PROVIDES THAT TOTAL VOTING POWER OF EACH MEMBER CONSISTS SUM OF ITS BASIC VOTES PLUS PROPORTIONAL VOTES. NUMBER OF PROPORTIONAL VOTES EACH MEMBER EQUAL TO NUMBER SHARES CAPITAL STOCK OF BANK PURCHASES BY THAT MEMBER. SAME ARTICLE STIPULATES THAT 20 PERCENT OF AGGREGATE SUM OF BASIC VOTES AND PROPORTIONAL VOTES OF ALL MEMBERS MUST BE EQUALLY DIVIDED BY ALL MEMBERS AS BASIC VOTE (AT PRESENT 41 MEMBERS).

(C) AT FOURTH ANNUAL MEETING OF BOARD OF GOVERNORS SIZE OF BOARD WAS ENLARGED TO 12 MEMBERS FROM 10, CONSISTING OF 8 DIRECTORS REPRESENTING REGIONAL MEMBERS AND 4 REPRESENTING NON-REGIONAL MEMBERS (RESOLUTION #37).

3. UNDER THE FOREGOING RULES, THEORETICAL MINIMUM VOTES REQUIRED FOR NON-REGIONAL MEMBER TO HOLD DIRECTORSHIP IS 25 PERCENT OF TOTAL NON-REGIONAL SHARES AND 7 PERCENT OF TOTAL VOTING SHARES. FOR A REGIONAL MEMBER MINIMUM 12.5 PERCENT OF TOTAL VOTING SHARES. U.S. WITH 7.6 PERCENT OF TOTAL VOTES AND 27.1 PERCENT OF TOTAL NON-REGIONAL VOTES BARELY ABOVE THEORETICAL MINIMUM REQUIRED TO RETAIN DIRECTOR'S CHAIR. LIMITED OFFICIAL USE

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4. IN EVENT GERMANY DOUBLES SHARE TO 19,754 AND INDONESIA QUADRUPLES SHARE TO 30,496, FOLLOWING WOULD RESULT:

- (A) TOTAL VOTES INCREASE TO 315,097
- (B) TOTAL REGIONAL VOTES INCREASE TO 226,192
- (C) TOTAL NON-REGIONAL VOTES INCREASE TO 88,905
- (D) INDONESIA WOULD HAVE 9.6 PERCENT OF TOTAL VOTING SHARES AND 12.3 PERCENT OF TOTAL REGIONAL VOTING SHARES.

(E) GERMANY WOULD HAVE 6.2 PERCENT OF TOTAL VOTING SHARES AND 22.3 PERCENT OF TOTAL NON-REGIONAL SHARES
(F) U.S. WOULD HAVE 6.7 PERCENT OF TOTAL VOTING SHARES AND 24.2 PERCENT OF TOTAL REGIONAL SHARES.
MINIMUM NUMBER OF SHARES REQUIRED TO RETAIN A DIRECTOR'S POSITION WILL REMAIN UNCHANGED, NAMELY, 9 PERCENT OF TOTAL VOTING SHARES AND 12 1/2 PERCENT OF TOTAL REGIONAL SHARES FOR REGIONAL MEMBERS, AND 7 PERCENT OF TOTAL VOTING SHARES AND 25 PERCENT OF TOTAL NON-REGIONAL SHARES FOR NON-REGIONAL MEMBERS.

5. OBVIOUS CONCLUSIONS:

(A) INDONESIA WOULD BE ENTITLED TO A DIRECTOR'S CHAIR INDEPENDENTLY. SHOULD INDONESIA PUSH FOR INDEPENDENT DIRECTORSHIP, THIS WOULD NECESSITATE REGROUPING, WITH GROUP MOST VULNERABLE TO DISBANDING THAT OF KHMER REPUBLIC, SRI LANKA, LAOS AND AFGHANISTAN.

(B) THEORETICALLY, GERMANY AND U.S. WOULD NOT BE ENTITLED TO A SOLE DIRECTORSHIP AND WILL HAVE TO SHARE POSITION WITH MINORITY NON-REGIONAL MEMBER. UP TO PRESENT AUSTRALIA AND INDIA, WHILE REPRESENTING OTHER MINORITY REGIONAL MEMBERS, HAVE NOT ROTATED EITHER DIRECTOR'S OR ALTERNATE'S POSITION WITH MINORITY MEMBERS. DEVELOPED NON-REGIONAL MEMBERS, HOWEVER, HAVE FOLLOWED PRACTICE OF ROTATING BOTH POSITIONS ON SOME KIND OF PRE-ARRANGED PATTERN.

(C) SINCE THERE ARE APPROXIMATELY 53,000 SHARES UNSUBSCRIBED CURRENTLY, INDONESIA/GERMAN SPECIAL SUBSCRIPTION INCREASE, COLLECTIVELY AMOUNTING TO 30,000 IF BASIC ASSUMPTIONS CORRECT, WOULD LEAVE ONLY 23,000 SHARES UNSUBSCRIBED CREATING OBVIOUS DIFFICULTIES FOR U.S. IN LIGHT LIMITED OFFICIAL USE

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OF CAPITAL SUBSCRIPTION INCREASE REQUEST OF 30,000 CURRENTLY BEFORE CONGRESS. HENCE, SPECIAL CAPITAL INCREASE FOR GERMANY AND INDONESIAN MAY WELL REMOVE ALL PROSPECTS OF U.S. RE-ESTABLISHING PARITY WITH JAPAN IN ADB. SULLIVAN UNQUOTE. RUSH

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